TREGO Energy Inc.

ANNUAL REPORT 1995

CORPORATE PROFILE

TREGO ENERGY INC. is an emerging junior oil and gas exploration and development company that has built a base of long life proven oil reserves in Southeast Saskatchewan. The oil reserves are complemented with an inventory of detailed and drillable development and exploratory prospects located on company owned lands, which provides Trego continued growth in cash flow and the potential for major break through in oil and gas reserve growth.

The company is listed on the Alberta Stock Exchange and trades under the symbol "TEI". At December 31, 1995, the Company had 7,693,238 shares issued and outstanding.

COMPANY PHILOSOPHY

- TO RESTRICT CAPITAL EXPENDITURES TO SOUTHEAST ALBERTA AND SOUTHEAST SASKATCHEWAN
- CORE PROPERTIES MUST BE COMPANY OPERATED
- PROPERTIES MUST HAVE A SIGNIFICANT WORKING INTEREST
- COMPANY OWNED INFRASTRUCTURE
- INTERNALLY GENERATED PROSPECTS ON COMPANY OWNED LANDS
- CARRY AN INVENTORY OF EXPLORATION LEASES THAT MAY BE FARMED OUT OR SOLD
- THROUGH FARMOUT, EXPOSE THE COMPANY TO HIGHER RISK, BUT HIGH POTENTIAL PROSPECTS

◀ COVER PHOTOGRAPH
This gas flare photograph was taken while drilling Trego Alma et al Weyburn 4B12-14-2D11-14-6-14-W2M. The well was drilled under balanced and flowed both oil and gas. This photo was provided by Mr. Fred Curtis of Frontier Engineering & Consulting Ltd.

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NOTICE OF ANNUAL MEETING

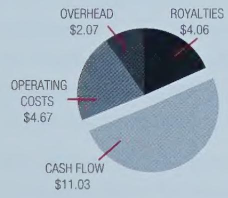
You are cordially invited to attend the Annual General Meeting of TREGO ENERGY INC. at 3:30 p.m., Thursday May 16, 1996 in the Cardium Room, Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary Alberta.

CORPORATE HIGHLIGHTS

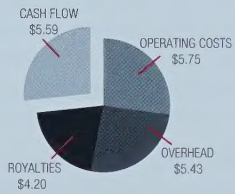
PROVEN RESERVES AND EXPLORATION LANDS

	1995	1994	1993
Proven Reserves			
Oil (MSTB)	1110.5	289	137
Gas (MMCF)	318.0	320	300
MBOE	1142.3	312	167
Land Holdings (acres)			
Gross	25,835	55,345	58,192
Net	12,512	18,251	19,192
Average interest	48%	33%	34%
Asset Values ($,000)			
Proven Reserves @ 15% DCF	$8,063	$3,685	$1,513
Exploration Lands	$ 693	$ 716	$ 912
Ammonite Leases	$ 211	$ 211	$ 211

COMPANY PROFITABILITY 1995/94



1995



1994

Average Price: 1995 - $21.83/bbl
1994 - $20.97/bbl

FINANCIAL ($,000) except per share data

	1995	1994	1993
Revenue net of Royalties	$ 1,006	$ 301	$ 298
Cash Flow	$ 624	$ 104	$ 139
per share ($)	.10	.02	.03
Net Income	$ 137	$ (49)	$ (21)
per share ($)	.02	(.01)	(.01)
Net Capital Expenditures	$ 2,744	$ 646	$ 1,421
Long Term Debt	$ 800	$ -	$ 35
Shareholder Equity	$ 2,223	$ 1,846	$ 1,677
Issued Shares @ December 31, (,000)	7,693	6,377	5,380
Capital Assets	$ 4,673	$ 2,482	$ 2,129
Year End Market Capitalization	$ 3,077	$ 1,913	$ 2,690
Net Asset Value-15% DCF	$ 6,768	$ 4,032	$ 2,276
per share($)	.88	.63	.42

OPERATIONAL (average 94% oil)

	1995	1994	1993
Production (BOE)	56,628	17,550	15,689
BOE/d	155	48	43
Pricing	$ 21.83	$ 20.97	$ 17.96
Operating Costs/BOE	$ 4.67	$ 5.75	$ 6.39
G & A Costs including interest ($/BOE)	$ 2.07	$ 5.43	$ 6.39
Net Back ($/BOE)	$ 11.03	$ 5.59	$ 8.86
Depletiion & Depreciation ($/BOE)	$ 5.35	$ 7.11	$ 8.70

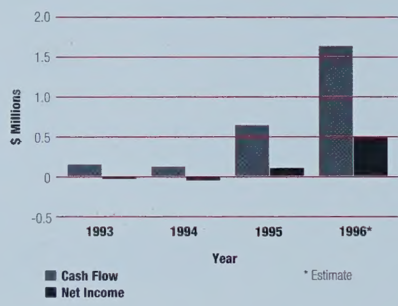
REPORT to SHAREHOLDERS

TREGO ENERGY INC. experienced dramatic growth in 1995, and more importantly, the Company has the properties and reserves to continue building its cash flow and develop its reserve base in the years ahead. Trego now has sufficient discretionary cash flow to meet capital requirements required to double our daily production and cash flow in 1996.

Highlights for 1995 include:

- average daily oil production increased 223% from 48 BOE/D to 155 BOE/D; exiting 1995 at 211 BOE/D;
- proven oil reserves increased 284% to 1,110,500 bbls;
- the 15% discounted present worth value of proven reserves increased 122% to $ 8,063,000;
- 68% of the proven reserves are producing;
- the Company has achieved a net finding cost for proven reserves of $4.82/bbl;

FINANCIAL



FINANCIAL HIGHLIGHTS

Trego Energy Inc. had a successful year in terms of assessing a company's value and profitability. Revenue for the year ended December 31, 1995 was $1,006,000 compared to $300,555 for the same period in 1994, generating cash flow for 1995 of $624,731 ($.10/share) a 499% increase over 1994. Margins also increased over 1994, with the company realizing a net back of $11.03 for each barrel produced.

Trego recorded net earnings of $136,652 ($.02/share) for the year ended December 31, 1995, which now provides the Company with positive retained earnings for the first time since the startup of the company. Depletion and depreciation cost for 1995 was $5.35/bbl which is lower than industry standard and speaks well of the quality of the company's reserves.

Capital expenditures for 1995 were $2.7 million, up significantly over the $.6 million in 1994. The capital expenditures were financed by the issue of $620,000 of flow-through shares, cash flow, and the use of the company's line of credit.

During the year a Private Placement of flow through shares in the amount of $620,000 was fully subscribed. Under terms of a normal course issuer bid, the Company acquired 234,000 common shares at an average price of $.37 per share. Based on the evaluations of Trego's proven properties by Sproule Associates and the independent exploration land evaluation, management believes that buying the Company's shares at $.40 per share is equivalent to buying proven reserves net of debt at $ 3.82 per barrel.

OPERATIONS HIGHLIGHTS

In 1995, Trego participated in the drilling of 4 oil wells (1.9 net wells) and one dry hole (.5 net wells). In addition, Trego strategically acquired production at Cantal/Alida and Steelman to complement existing properties and acquired a new core property in the Weyburn area in Southeast Saskatchewan. In all, Trego now operates 25 oil wells (net 16.8 wells; average 67% interest) and four oil batteries. Each property offers considerable upside to the Company's cash flow and reserve base.

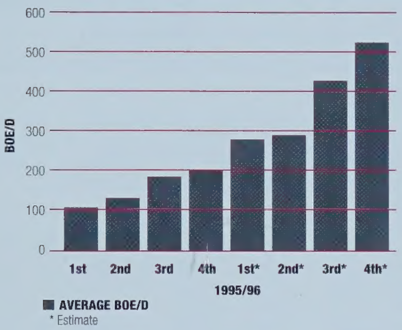
By virtue of the above activity, Trego now has proven reserves of 1.1 million bbls of oil, an increase of 284% over 1994. The 15% discounted present worth of the company's proven reserves only, is $ 8.1 million, an increase of 122% over 1994. The exploration lands have been evaluated at $693,000, a decrease of 3% from 1994. The Company's ammonite leases have been evaluated at $211,000, the same value as last year. In keeping with the

REPORT to SHAREHOLDERS

Company's philosophy of maintaining larger interests in properties, Trego's average interest in exploration lands has increased from 33% in 1994 to 48% in 1995.

Weyburn and Cantal/Alida contribute 97.5% of the Company's total proven reserves while the Steelman area contributes only 1.7%. All three areas offer further development drilling potential.

AVERAGE QUARTERLY PRODUCTION



OUTLOOK

The Company concluded 1995 producing 211 BOPD and has increased that rate to approximately 260 BOPD in January and February, 1996. Management is budgeting to achieve an average daily production of 375 BOPD for 1995 and exit 1996 at 515 BOE/D. This translates into cash flow of $1.6 million ($.20/share). A capital expenditure program of $1.7 million has been budgeted for 1996 and will be satisfied from cash flow and the anticipated sale of speculative lands. Although Trego has not budgeted for any production purchases in 1996, management is continuing to review potential properties and Trego does have the ability through its surplus credit facilities to take advantage of an opportunity that meets our criteria.

On the existing three core producing properties, a total of 17 development horizontal locations and 13 vertical locations have been identified. The Company also has a number of exploration prospects defined that will be farmed out over time. An example of this is the three Devonian prospects optioned to an industry company in the Stettler/Fenn West area of central Alberta, which is discussed in this report. As cash flow builds, Trego will have more funds to expedite its development program providing a bright future for Trego shareholders.

I am pleased that our growth, and potential for greater growth, has been accomplished with a staff of three people including myself. I wish to take this opportunity to thank Stan Prenioslo, as Vice President of exploration, for his efforts in handling the exploration and development side of our Company and providing Trego with a number of development and exploration opportunities. In addition, Lisa de Regt deserves considerable credit for keeping our operation efficient, by handling all production and financial accounting and other administrative duties. The Board of Directors have also been supportive, with constructive ideas, in each decision that has been made over the year.

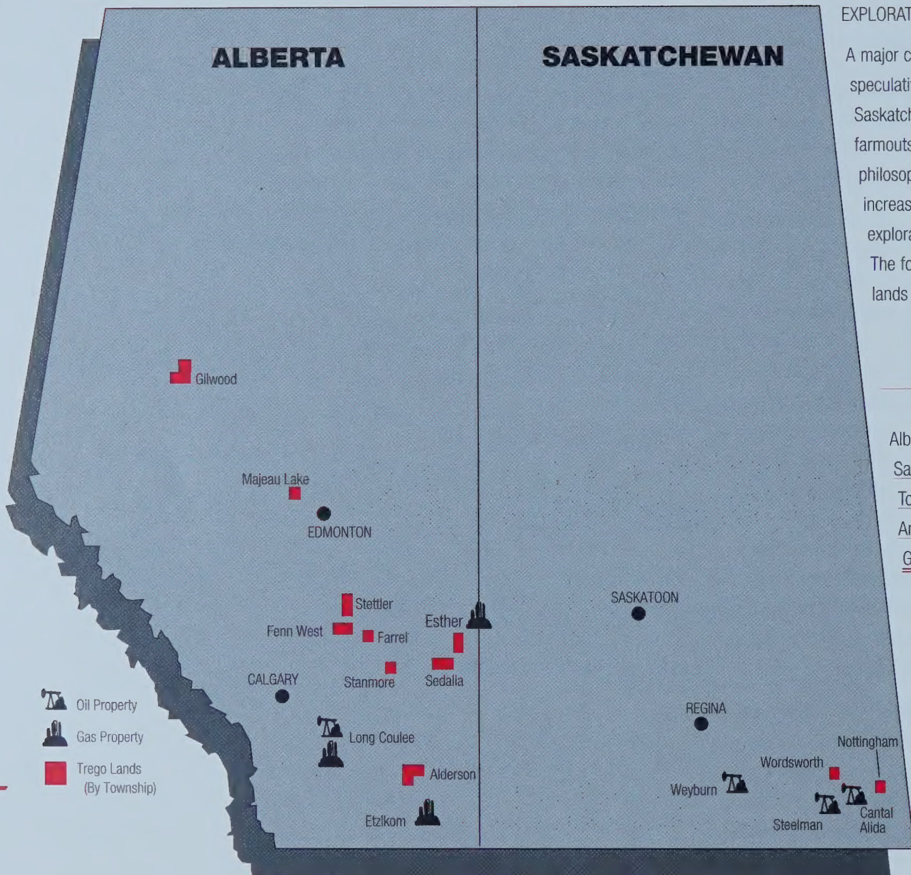
Since inception, asset value per share for the Company has increased each year, and I have every reason to believe this will continue in 1996. I am convinced this will eventually translate into increased share price and shareholder value.

On Behalf of the Board of Directors,

Hugh D. Borgland
President

March 20, 1996

EXPLORATION and LAND



EXPLORATION AND LAND

A major component of Trego's exploration strategy is to carry an inventory of speculative and prospective lands which are spread throughout Alberta and Saskatchewan. The Company's net acreage position is less than 1994 due to farmouts, sale of lands and expiring leases. In keeping with the Company's philosophy of maintaining a larger interest in lands, Trego's average interest increased from 34% in 1994 to 48% in 1995. Trego anticipates increasing its exploration land holdings by at least 10,000 acres in 1996.

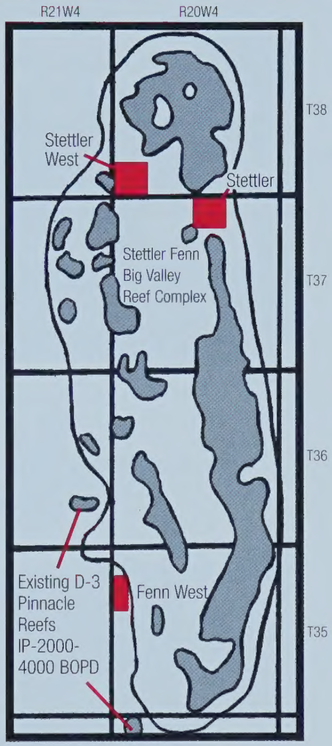
The following values were independently assigned to Trego's undeveloped lands at January 1, 1996:

	Acres		Average	Appraised
	Gross	Net	Interest	Value
Alberta	22,080	9,330	42%	$ 303,506
Saskatchewan	3,755	3,182	85%	$ 388,660
Total (Oil & Gas)	25,835	12,512	48%	$ 692,166
Ammonite Leases	3,689	1,844	50%	$ 211,977
Grand Total	29,524	14,356	49%	$ 904,143

EXPLORATION and LAND

LEGEND

Bbls	barrels
Mbbls	thousands of barrels
BOPD	barrels of oil per day
BOE/D	barrels of oil equivalent per day
BPD	barrels per day
BLPD	barrels of liquid per day
Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
MCF/D	thousand cubic feet per day
MMCF/D	million cubic feet per day



STETTLER/FENN WEST, ALBERTA

Trego has developed 3 high potential Devonian prospects in this known oil producing region. The company has farmed out all three prospects to an industry company which will conduct geophysical surveys over each property with the option to drill up to three wells.
Trego will have a 40% carried interest in two of the prospects, and a 28% carried interest in the third.

The primary property, Fenn West, is a pinnacle reef prospect which has an existing seismic anomaly and plays off an existing key well. This property is situated between two known pinnacle reefs with initial production rates in excess of 4,000 BOPD. The two other prospects are located in the main reef complex, on trend with existing significant Devonian production. Each prospect offers dual zone possiblities and has the potential to dramatically effect the production base and cash flow of Trego.

They also demonstrate the Company's philosophy of acquiring oil and gas leases at affordable prices; developing sound exploration prospects; attracting industry company's interest in additional work, and ultimately the drilling of high potential production prospects.

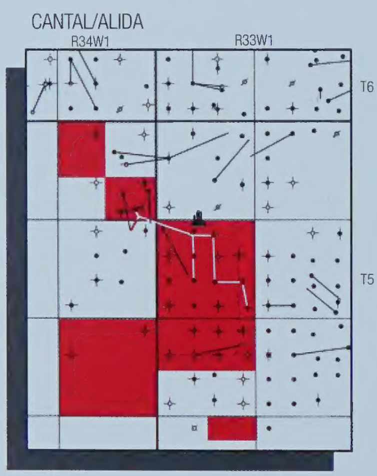
DEVELOPMENT PROPERTIES

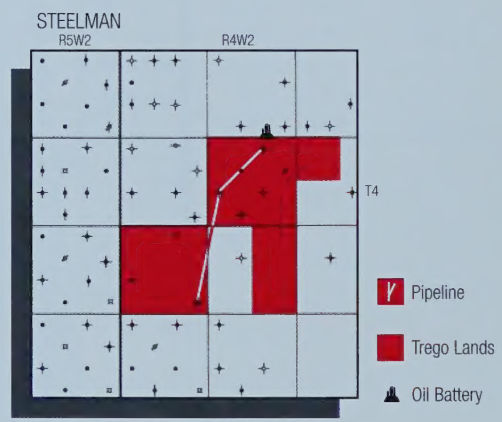
CANTAL/ALIDA, SASKATCHEWAN

The Cantal/Alida area of Saskatchewan continues to be an important operation for the company. At the beginning of 1995, Trego had a working interest varying from 30.125% to 100% in 7 producing Mississippian oil wells and a 100% interest in an oil battery and salt water disposal well. During 1995, Trego acquired an additional 100% working interest in 5 oil wells, an oil battery and 640 acres of additional leases, immediately offsetting existing company operated production. Initial production from this acquisition averaged 35 BOPD. Successful reworks on 2 of these new wells increased production to 60 BOPD. Trego also drilled one horizontal well during December, 1995 and it is currently producing at a 90% oil cut. Trego has identified 4 horizontal locations and 6 vertical locations on company owned lands and will continue to pursue the Cantal/Alida area as a core property.

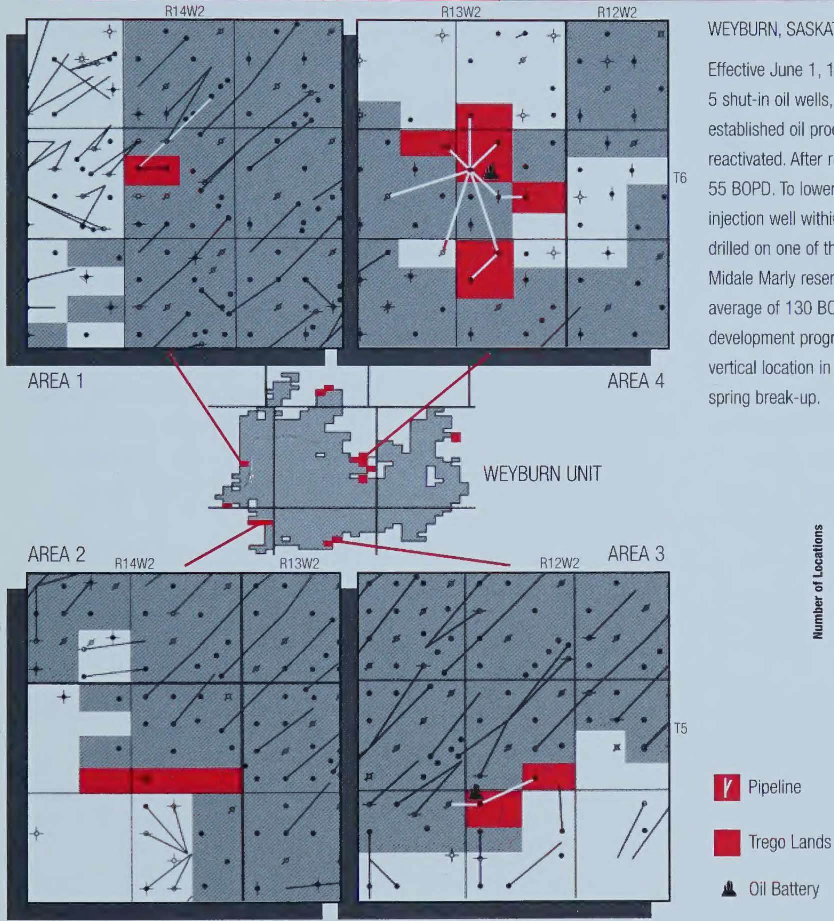
STEELMAN, SASKATCHEWAN

During 1995, Trego, as operator, participated in the drilling of a Frobisher oil well on this property. Although a drillstem test recovered gas to surface, and clean oil, the well has been producing oil with a high water cut. During the third quarter, Trego completed the purchase of an oil property immediately adjacent to these lands which include an oil battery, salt water disposal well and two marginal oil wells. A flowline was constructed to tie the new Trego discovery to the newly purchased battery and operations efficiencies are now being realized. A total of 6 vertical locations and 1 horizontal location have been identified on the 1760 acres of company controlled petroleum leases, with additional drilling expected to commence during the summer of 1996. Trego currently maintains a 63% working interest in this property.





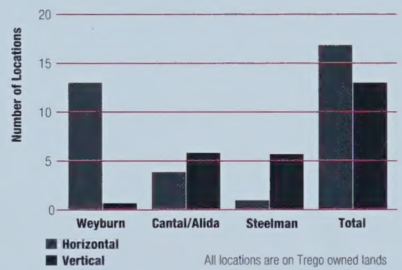
DEVELOPMENT PROPERTIES



WEYBURN, SASKATCHEWAN

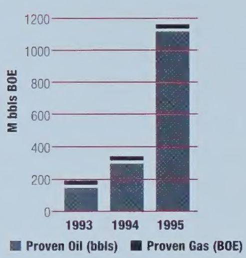
Effective June 1, 1995, Trego acquired a 50% working interest in three producing oil wells, 5 shut-in oil wells, 2 oil batteries and 1040 acres of Petroleum and Natural Gas rights in this established oil producing area. The existing batteries were refurbished and the shut-in wells reactivated. After reactivation of the shut-in wells Trego's net production in this area averaged 55 BOPD. To lower operating costs, a salt water disposal flowline was constructed to a water injection well within the Weyburn unit. During December, an underbalanced horizontal well was drilled on one of the company generated drilling locations and encountered excellent quality Midale Marly reservoir pay. This well was placed on production and has stabilized at an average of 130 BOPD (65 net to Trego). These positive results bode well for the company's development program which includes 12 additional low risk horizontal locations and one vertical location in the Weyburn area, with the first two expected to be drilled shortly after spring break-up.

DRILLING LOCATIONS

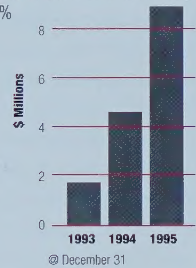


RESERVES OVERVIEW

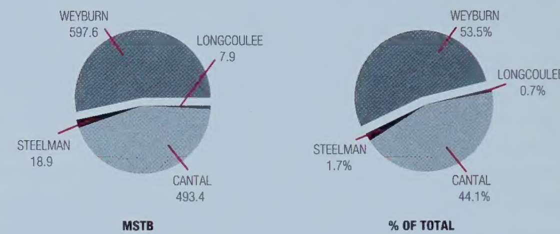
PROVEN NET RESERVES



PRESENT WORTH OF PROVEN RESERVES @ 15%



PROVEN RESERVES



RECONCILIATION OF RESERVES

Trego Energy Inc. increased its proven oil reserves by 284% and recorded a 1% reduction in proven gas reserves. The additions were derived from production purchases and drilling and have been restricted to our three current core properties in Southeast Saskatchewan.

	Proven Oil (Mbbl)	Proven Gas(Mmcf)
January 1, 1995	289.6	179.0
Production Purchases		
Weyburn	297.6	-
Cantal/Alida	146.0	90.0
	443.6	90.0
Drilling		
Weyburn	300.0	-
Steelman	18.9	
Cantal	111.9	80.1
	430.8	80.1
1995 Production	(53.5)	(31.1)
Reserves @ December 31, 1995	1,110.5	318.0

RESERVES DISCUSSION

Sproule Associates Limited evaluated Trego's reserves effective January 1, 1996 and assigned a present worth value of $8,063,000 to future cash flows, discounted at 15%, an increase of 122% over 1994. This value is also net of future abandonment costs. The increase is attributable to reserve additions in the company's three main core areas.

RESERVE SUMMARY

CLASSIFICATION	OIL MBBLS	GAS MMCF	10% $M	15% $M	20% $M
Proven Producing	759.5	318.0	7,158	5,929	5,092
Proven non-producing	31.0	-	495	210	126
Proven undeveloped	320.0	-	2,385	1,978	1,654
TOTAL	1,110.5	318.0	9,753	8,065	6,872

RESERVE LIFE INDEX

Based on 1995 production, the reserve life index for the Company's proven reserves was 20 years. The Company only evaluates proven reserves and does not include probable. The reserve life index based on current production rates is 12 years.

MANAGEMENT'S DISCUSSION and ANALYSIS

The following discussion and analysis is management's opinion of the Company's historical and operating results and should be read in conjunction with audited financial statements of the Company for years ended December 31, 1995 and 1994.

OVERVIEW

Trego had a successful year ending December 31, 1995 recording a 235% increase in revenue, a 499% increase in cash flow, and a 380% increase in net income. The following table highlights these results:

	1995	1994	% change
Revenue	**$ 1,006,236**	$ 300,555	+235
Cash Flow	**$ 624,731**	$ 104,248	+499
per share	**$ .10**	.02	+400
Net Earnings	**$ 136,652**	$ (48,792)	+380
per share	**$ .02**	(.01)	+300

REVENUE

Revenue from the sale of oil and gas was $1,006,236, net of royalties, on the sale of 56,628 barrels of oil equivalent. Oil revenue accounted for 94.5% of sales while gas production accounted for the remainder. The company averaged $21.83 per BOE and paid $4.06 per BOE for royalty. This compares to $20.97 per barrel and $3.84 per barrel in 1994 respectively. For the year the Company averaged 155 BOE/D and exited 1995 producing 211 BOE/D.

ADMINISTRATIVE EXPENSES

Administrative expenses for 1995 were $48,199 ($.85/bbl) down from $95,377 ($5.43/bbl) in 1994. Our administrative expenses appear abnormally low, however, the company received $106,058 in operating overhead revenue which is netted against Trego's administrative expenses. A further $114,000 was capitalized in 1995 compared to $102,000 in 1994. The Company's administrative expenses prior to recovery of overhead and capitalized G & A costs were $268,257.

DEPLETION AND DEPRECIATION

Depletion and Depreciation was $300,113 in 1995 compared to $124,780 in 1994. On a per barrel basis, D & D declined from $7.11/bbl in 1994, to $5.35/bbl in 1995. The rate of $5.35/bbl is lower than industry average and reflects the improved quality and life of the Company's reserves.

MANAGEMENT'S DISCUSSION and ANALYSIS

INTEREST ON LONG TERM DEBT

Interest on long term debt was $68,739 ($1.21/bbl) in 1995. The Company did not pay any interest in 1994. The interest rate for the Company in 1995 was 1.25% over prime rate. This rate has been re-negotiated to 1% over prime commencing April 1. 1996.

OPERATING COSTS

In 1995, Trego continued to improve its efficiency in its field operations by reducing operating costs from $5.75/bbl in 1994 to $4.67/bbl in 1995. Management believes that operating costs per BOE can be improved further in 1996. After the acquisition of the Weyburn properties, Trego incurred high operating costs from this property. A number of improvements have been implemented that will reduce the unit operating costs for the Company in 1996.

CAPITAL EXPENDITURES

Net capital expenditures for 1995 were $2,743,929, an increase of 325% over 1994. The capital expenditures were allocated approximately 33% to production purchases, 8% to exploration and development; 33% to development drilling and completion; and 26% to tangible equipment. After deducting the investment in undeveloped lands, and adding future investment to develop proven reserves, Trego's finding costs for proven reserves is $4.82/bbl. The 1995 capital expenditures were financed from cash flow, increase in bank debt, and the issuance of 1,550,000 flow through shares at $.40/share.

BANK DEBT AND WORKING CAPITAL DEFICIENCY

At December 31, 1995, Trego had a Bank Debt of $800,000 and a working capital deficiency of $1,400,165. The working capital deficiency was incurred primarily because Trego operated the drilling and completing of two horizontal wells in December, 1995, resulting in high current payables at year end. Trego has an existing line of credit in the amount of $2,000,000 to cover short term working capital requirements and normally runs a working capital deficiency to reduce borrowing costs.

The existing line of credit does not require principle payments until April 1, 1997 and effective April 1, 1996 the interest rate has been reduced to 1% over prime. Although not in place, the Bank has advised that the Company's reserves and cash flow projections could justify an increase in the Company's line of credit to $3.5 million. Anticipated cash flow in 1996 is $1.6 million and together with expected sale of speculative leases, Trego will meet its 1996 capital budget of $1.7 million. This budget does not include the acquisition of producing properties which would be financed from increasing Trego's lines of credit.

Based on a total debt of $2.2 million, including working capital deficiency, at December 31, 1995, and anticipated cash flow of $1.6 million for 1996, the debt to cash flow is 1.4 years.

SHAREHOLDER'S EQUITY

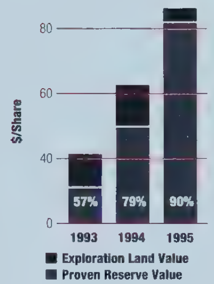
At December 31, 1995, Trego had 7,693,238 shares issued with a book value of $2,223,087 ($.29 per share) including retained earnings. At a current market price of $.40 per share, the market capitalization of the Company is $3,077,000, with a net asset value of $6,678,000 or $.88 per share based on an independent evaluation of the Company's assets at January 1, 1996.

NET ASSET VALUE PER SHARE

Trego has increased its net asset value in each of its three full years of operation. The following table sets out the calculation of net asset value and does not assign any value to probable reserves.

	1995 ($M)	1994 ($M)	1993 ($M)
Proven reserves discounted at 15%	**$ 8,063**	$ 3,685	$ 1,513
Exploration Land Value	**693**	716	924
Ammonite Leases	**212**	212	212
Less: Long term Debt (including working capital deficiency)	**(2,200)**	(586)	(373)
Net Asset Value @ December 31, 1995	**$ 6,768**	$ 4,032	$ 2,276
Issued shares @ December 31,(,000)	**7,693**	6,377	5,380
Net Asset Value/share	**$ .88**	$ .63	$ .42
Fully diluted value per share	**$ .85**	$ .62	$ .42

NET ASSET VALUE PER SHARE



An important factor when considering net asset value comparison of the Company is that 57% of the value in 1993 comprised of proven reserves whereas 90% of the net asset value in 1995 comprises proven reserves which is a more tangible value.

AUDITORS REPORT

TO THE SHAREHOLDERS OF TREGO ENERGY INC.

We have audited the balance sheets of Trego Energy Inc. as at December 31, 1995 and December 31, 1994 and the statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and December 31, 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Garrett Bever

Chartered Accountants

Calgary, Alberta February 23, 1996

BALANCE SHEET

As at December 31,

ASSETS		1995		1994
Current assets:				
Cash	$	**13,115**	$	103,864
Accounts receivable		**445,239**		213,942
		458,354		317,806
Capital assets (Note 2)		**4,673,097**	$	2,481,986
	$	**5,131,451**	$	2,799,792

LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liability:				
Accounts payable	$	**1,858,404**	$	903,669
Long term debt (Note 3)		**800,000**		-
Reclamation costs		**47,509**		22,306
Deferred income taxes		**202,451**		28,260
Shareholders' equity:				
Share capital (Note 5)		**2,177,465**		1,915,652
Retained earnings (deficit)		**45,622**		(70,095)
	$	**2,223,087**	$	1,845,557
	$	**5,131,451**	$	2,799,792

Approved by the board:

Director: Director:

STATEMENT of OPERATIONS and RETAINED EARNINGS

Years Ending December 31,

	1995	1994
Revenue:		
Oil and gas, net of royalties	$ 1,006,236	$ 300,555
Expenses:		
Administration	48,199	95,377
Depletion and depreciation	303,113	124,780
Interest on long term debt	68,739	-
Operating	264,567	100,930
	684,618	321,087
Income (loss) before provision for income taxes	321,618	(20,532)
Provision for income taxes - deferred (Note 4)	184,966	28,260
Net income (loss) for the year	136,652	(48,792)
Deficit at beginning of year	(70,095)	(21,303)
	66,557	(70,095)
Redemption and cancellation of shares (Note 5)	20,935	-
Retained earnings (deficit) at end of year	$ 45,622	$ (70,095)
Earnings (loss) per share	$ 0.02	$ (0.01)

The accompanying notes are an integral part of these financial statements.

STATEMENT of CHANGES in FINANCIAL POSITION

Years Ending December 31,

	1995	1994
Operating activities:		
Income (loss) for the year	$ 136,652	$ (48,792)
Add: Items not requiring a current outlay of cash -		
Deferred income taxes	184,966	28,260
Depletion and depreciation	303,113	124,780
Cash flow from operations	624,731	104,248
Decrease in non-cash working capital	723,438	229,101
Cash provided by operating activities	1,348,169	333,349
Investing activities:		
Investment in capital assets	(2,820,672)	(862,526)
Proceeds on disposal of capital assets	76,743	216,446
Cash used in investing activities	(2,743,929)	(646,080)
Financing activities:		
Proceeds from (repayment of) long term debt	800,000	(35,000)
Proceeds on issuance of common shares	620,000	399,000
Redemption and cancellation of common shares	(90,689)	-
Share issue costs	(24,300)	(4,700)
Cash provided by financing activities	1,305,011	359,300
Increase (decrease) in cash	(90,749)	46,569
Cash, beginning of year	103,864	57,295
Cash, end of year	$ 13,115	$ 103,864
Cash flow per share*	$ 0.10	$ 0.02

** Cash flow per share is based upon cash flow from operations divided by the average number of shares outstanding during the year.*

NOTES to FINANCIAL STATEMENTS

December 31, 1995

1

Summary of significant accounting policies:

EXPLORATION AND DEVELOPMENT COSTS -

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs directly related to the exploration for and development of petroleum and natural gas reserves are capitalized. All expenditures accumulated are depleted using the composite unit of production method based on estimated proven reserves as determined by independent petroleum engineers. Gas volumes are converted to equivalent oil volumes based upon the relative energy content of ten thousand cubic feet of gas to one barrel of oil. No gains or losses are recognized upon the disposition of petroleum and natural gas properties unless such treatment alters the depletion rate by more than 20%.

Oil and gas properties are subject to a ceiling test under which their carrying value, net of deferred income taxes and accumulated provision for reclamation costs, is limited to the undiscounted future net revenue from production of estimated proven oil and gas reserves, based on year end prices plus the unimpaired costs of non-producing properties less estimated future administration, financing, reclamation costs and income taxes.

RECLAMATION COSTS -

Reclamation costs are accrued based on estimates made by independent petroleum engineers and are charged against earnings as depletion expense.

FLOW THROUGH SHARES -

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow through share arrangements are renounced to investors in accordance with tax legislation. Petroleum and natural gas assets and share capital are reduced by the estimated cost of renounced tax deductions when the expenditures are incurred.

JOINT VENTURE ACCOUNTING -

A substantial part of the Company's operations are carried out through joint ventures. The financial statements reflect only the Company's proportionate interest in such activities.

2

Capital assets:

	1995	1994
Petroleum and natural gas assets	$ 5,150,648	$ 2,688,567
Furniture and fixtures	26,679	22,110
Other property	12,672	10,301
	5,189,999	2,720,978
Accumulated depreciation and depletion	(516,902)	(238,992)
Net book value	$ 4,673,097	$ 2,481,986

Costs associated with unproved properties excluded from costs subject to depletion for the year amounted to $1,121,672 (1994 - $626,558). The Company capitalized general and administrative expenses of $114,000 (1994 - $102,000).

December 31, 1995 *(Continued)*

3

Long term debt:

The debt bears interest at prime plus 1.25% and is secured by a General Security Agreement covering all present and acquired property and a fixed and floating charge debenture of $3,000,000 on the Company's assets including interests in certain petroleum and natural gas assets. The maximum amount of debt available is currently $2,000,000. There are no required principal repayments in 1996 based on the Company's current level of debt.

4

Income taxes:

The income tax provision on the income statement differs from the expected income tax provision as follows:

	1995	1994
Expected income taxes	$ **142,605**	$ (9,104)
Add (deduct) effects of:		
Non deductible crown royalties	**85,419**	21,951
Non deductible depletion and depreciation	**31,149**	18,562
Resource allowance	**(76,021)**	(2,733)
Other	**1,814**	(416)
Actual income taxes	$ **184,966**	$ 28,260

5

Share capital:

a) Authorized share capital consists of an unlimited number of common and preferred shares. The following summarizes the movement in the common share account during the year:

NUMBER OF SHARES

	1995	1994
Opening balance	# **6,377,238**	# 5,379,738
Issued for cash	**1,550,000**	997,500
Redeemed and cancelled	**(234,000)**	-
	# **7,693,238**	# 6,377,238

AMOUNT

	1995	1994
Opening balance	$ **1,915,652**	$ 1,698,272
Issued for cash, net	**345,092**	222,080
Redeemed and cancelled	**(69,754)**	-
Share issue costs, net of deferred tax of $10,775	**(13,525)**	(4,700)
	$ **2,177,465**	$ 1,915,652

b) During the year, the Company issued 1,550,000 flow through shares (1994 - 997,500) for total cash consideration of $620,000 (1994 - $399,000). In accordance with the Company's accounting policy, the resulting income tax effects of $274,908 (1994 -$176,920) were applied to reduce the Company's petroleum and natural gas assets.

December 31, 1995 *(Continued)*

c) Pursuant to a Normal Course Issuer Bid, the Company redeemed and cancelled 234,000 shares at a cost of $90,689, an amount in excess of the average cost of the shares by $20,935. This excess amount has been charged to retained earnings in the year.

d) Subsequent to year end, the Company redeemed and cancelled a further 27,500 shares at a cost of $12,818.

e) As at December 31, 1995, there were 489,000 common shares held in escrow (1994 - 576,000). Stock options have been granted to directors and consultants as follows:

Expiry Date		Number	Price
December 31, 1996	#	190,000	$0.35
June 30, 1998		260,000	$1.00
September 15, 1999		170,000	$0.40
	#	620,000	

6

Related party transactions:

Companies controlled by certain directors of the Company are participants in various oil and gas joint ventures with Trego Energy Inc. These financial statements include normal account balances with these companies as a result of the joint participation in these ventures.

7

Contingency:

The Company is subject to extensive environmental laws and regulations.
These laws, which are constantly changing, include regulations covering the discharge of materials into the environment. The Company believes that it is in compliance with existing laws and regulations.

CORPORATE SUMMARY

DIRECTORS

Murray J. Berg
President, Signal Energy Ltd.

Hugh D. Borgland
President, Trego Energy Inc.

Kenneth D. Cairns
President, Dulan Resources Ltd.

David B. Ilsley
President, Rosebud Development Corp.

R. David Kimmitt
Partner, Kimmitt Schmidt

Stanley M. Prenioslo
Vice President/Secretary,
Trego Energy Inc.

OFFICERS AND KEY PERSONNEL

Hugh D. Borgland
President

Stanley M. Prenioslo
Vice President, Exploration

Lisa de Regt
Accountant/Administrative Assistant

TREGO Energy Inc. ANNUAL REPORT 1995

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Calgary, Alberta, Canada

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Burstall Ward
Calgary, Alberta

AUDITORS

Garrett Power, Chartered Accountants
Calgary, Alberta

BANK

Canadian Western Bank
Calgary, Alberta

TRANSFER AGENT

Montreal Trust
Calgary, Alberta

LISTING INFORMATION

Alberta Stock Exchange
Symbol: "TEI"
Outstanding shares: 7,693,238

HEAD OFFICE

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